

Post Office Limited – Strictly Confidential

POLB 15(1st)
POLB 15/01 - 15/22

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held on 28 January 2015
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive
Alisdair Cameron	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Neil Hayward	Group People Director (minute POLB 15/4-15/6)
David Ryan	Business Transformation Director (minute POLB 15/5-15/7)
Martin Edward	Head of Financial Strategy (minute POLB 15/5-15/6)
Lesley Sewell	Chief Information Officer (minute POLB 15/7 only)
Jane MacLeod	General Counsel (minute POLB 15/8 only)
Chris Aujard	General Counsel (minute POLB 15/8 only)
Arnout Vanderveer	Head of Risk & Assurance (minute POLB15/8 only)
Martin George	Commercial Director (minute POLB 15/9 only)
Mark Siviter	Head of Mails (minute POLB 15/9 only)
Kevin Gilliland	Network & Sales Director (minute POLB 15/10 only)
Mark Davies	Communications & Corporate Affairs Director (minute POLB 15/11 only)

POLB 15/01

INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting.

POLB 15/02

CHANGE OF DIRECTORS

(a) The Board approved the appointment of Alisdair Cameron and noted that Chris Day would cease to be a director with immediate effect.

**ACTON:
CoSec**

(b) The Company Secretary was authorised to make all the necessary filings with Companies House.

POLB 15/03

CEO'S REPORT

(a) The CEO introduced her report and focussed on the following key areas for discussion with the Board:

(b) Cost Reduction The CEO was pleased to report the excellent

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progress made by the Business - the forecast was to overachieve the £60m target by £1.7m. She recognised the work done by David Ryan, Business Transformation Director, and stressed that the focus on cost reduction would continue into the new financial year. The first wave of staff efficiencies was taking place and planning for the second wave was underway, which was focussed on managerial roles.

ACTION:
CEO

(c) Finsbury Dials Teams would begin to move into the new 'Customer Support Centre' in March and the CEO informed the Board that it would be ready in time for the next Board meeting. The move would promote new ways of working including a Group Executive hub; more use of hot-desking and open plan areas; and a meeting room which could accommodate up to 300 people. The CEO promised to circulate a note explaining the new governance structure, including the Group Executive, but assured the Board that there was no change in the delegated authorities from the Board.

ACTION:
Mark Davies

(d) It was proposed that the next Post Office Advisory Council (POAC) be held in the new office.

ACTION:
Pete Markey

(e) FS Media coverage The CEO reported the excellent media coverage received for Post Office Money and the Financial Services Academy. A link to the new Post Office Money TV advertisement would be circulated as soon as it was available.

ACTION:
Nick Kennett

POLB 15/04

(f) Banking Facilities The CEO explained that the Secretary of State was leading a debate on banking facilities and the role that Post Office could play and thanked Richard Callard for his support with this work.

(g) Hawk The CEO was concerned about the timescales for Project Hawk and proposed a Financial Services update at the next meeting, including Hawk and POMS.

2014/15 FINANCIAL PERFORMANCE AND SCORECARD

(a) The Board welcomed Neil Hayward, Group People Director, to the meeting.

(b) The CFO gave the Board an update on:

- the financial performance in December 2014 and YTD;
- the expected financial outcome for 2014-15; and
- the expected outcome on the performance scorecard.

(c) The CFO supported the £95m EBIT forecast but acknowledged that in his opinion the £880m revenue forecast still contained a degree of optimism. This risk was mitigated by the continued focus on costs. The Board discussed the revenue trajectory and the Q4 revenue required to achieve the forecast.

(d) The Board asked when the new FS incentive scheme would be launched. Neil Hayward explained that the detail had been sent to

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the CWU on 18th December. The Board discussed the importance of retaining the focus on Treating the Customer Fairly as well as incentivising sales and agreed that the ARC should continue to monitor the FS sales risk measures.

ACTION:
Kevin Gilliland

- (e) The Board recognised the importance of Q4 for ISA sales and asked the Business to ensure that they had the necessary sales focus in place.

ACTION:
CFO

- (f) The Board discussed the telephony revenue and asked if the contract had been changed to rectify the revenue/cost disparity for increased customer usage. The CFO agreed to circulate a note to clarify.

ACTION:
Pete Markey

- (g) The CFO highlighted that Q3 was the first quarter of the year to deliver an EBIT above plan and he was encouraged that the Business would be able to close the EBIT gap further in Q4.

- (h) The Board discussed the scorecard and the poor performance on 'easy to do business with'. The CEO acknowledged the significant drop against target and last year's result and agreed to circulate a note to explain the performance.

- (i) The CFO explained that Q4 still contained some big one-off risks and opportunities and that the EBIT could range from £83m to £103m, although he was comfortable with the £95m currently being forecast. Likewise the Bonus could range between 12.5% and 70%, with a current forecast of 50%.

- (j) The Board discussed the Crown P&L target and agreed to the principle that the initial 373 Crown branches be included in the like for like breakeven analysis.

- (k) The Board noted the performance and improved full year forecast. The Board further noted that there were a number of key dependencies for this improved full year forecast to be achieved.

POLB 15/05

UPDATE ON THE 2015/16 OPERATING PLAN AND THREE YEAR OPERATING PLAN

ACTION:
Martin Edwards

- (a) The Board welcomed David Ryan, Business Transformation Director, and Martin Edwards, Head of Financial Strategy, to the meeting.

- (b) The CFO updated the Board on the preparation of the 2015/16 Annual Operating Plan and introduced the proposed approach to the three year plan, providing an interim update on the latest financial projections through to 2017/18.

- (c) An EBITDAS target of £35m was proposed for 2015/16, continuing the improvement of the last three years but falling short of the breakeven target in the strategic plan.

- (d) The CFO explained that he believed that the Business was being over optimistic on revenue, especially in Mails, which had not factored in RMG's promotion of online postage. He did not think the level of over optimism was as significant as the 2014/15 budget but he

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wanted a more realistic approach in the budget and three year plan.

- (e) The CFO recognised the need for a £10-15m contingency to support the £35m EBITDAS target proposed for 2015/16 and this would be built into the budgets issued to individual functions. Neil Hayward reminded the Board that an EBITDAS target of £35m would not hit the LTIP target, the Business would need to deliver an outturn of £26m to trigger the LTIP.
- (f) The Board discussed the current risks and opportunities highlighted in the plan and the need to continue to focus on reducing costs. The CFO recognised the need to manage working capital to enable the Business to deliver the plan without further borrowing.
- (g) The CEO explained that the Business scorecard and bonus measures would be discussed at the RemCom in February.
- (h) The Board discussed the objectives for the three year operating plan, the first year of which would be the budget for 2015/16. The CFO promised a draft to the Board in March and the final plan in May.
- (i) The Board asked for a page showing the 2012/13 to 2017/18 strategic plan against the outturn for past years and the forecast for future years, to be included as a baseline in the three year operating plan.
- (j) Martin Edwards explained that the plan would contain milestones and change activity, along with major events and a log of material risks and opportunities. The Board asked that the plan showed the assumptions being made so that they could understand the choices available to the Business.

POLB 15/06**BUSINESS TRANSFORMATION**

- (a) The Board thanked David Ryan for the focus he had set the Business on cost reduction and the performance to date.
- (b) The Board received an update from David Ryan on the Business Transformation Programme and the actions arising from the November Board. David Ryan reported that he now believed a 20% reduction in change resource was possible as part of wave 2, taking the team down from its current 80 FTEs to circa 60.
- (c) David Ryan proposed that the Back Office Application Tower (BOAT) work, which had been suspended to consider alignment with the wider back office outsourcing, should now go ahead. The added risks and cost of any further delay to BOAT outweighed any possible small advantage. The Board agreed that the risks outweighed any benefits and that the Business should focus on the front office changes. David Ryan would circulate a briefing note to the Board once the final BOAT and back office timelines were agreed.
- (d) David Ryan explained that he was focussing on three areas for Business Transformation:
 - i. Driving the cost savings this year and next to get to a

ACTION:
David Ryan

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- stretch target
- ii. Delivering a 3 year plan, aligned with the operating plan, with Business Transformation milestones, which he agreed to report to the Board on in May
- iii. Introducing a governance through a design authority group and an investment appraisal group to ensure that all activity is considered through a transformation lens.
- (e) David Ryan stressed that the technology agenda was mission critical and needed to take precedence.
- (f) The Board noted the update.
- (g) Neil Hayward and Martin Edwards left the meeting.

POLB 15/07

IT STRATEGY

ACTION:
Lesley Sewell

- (a) The Board welcomed Lesley Sewell, Chief Information Officer, to the meeting and received an update on: the progress against the key initiatives within the 2020 Strategy; the progress on developing the IT Strategy and alignment with Business Transformation; and the key risks, mitigations and contingency plans.

ACTION:
Lesley Sewell

- (b) The Board discussed the changes to the front office system and Lesley Sewell stressed the need for the front office changes to be given primacy over all other Business initiatives. It was recognised that standardising and simplifying products and systems would reduce cost and complexity for suppliers. The CEO assured the Board that the Executive recognised the need to simplify products and processes and that the IT strategy was being managed through an Executive IT Governance Committee.

- (c) A preferred bidder from Accenture, IBM and CSC would be chosen by the end of March.

ACTION:
Mark Davies

- (d) The Board asked the Business to consider the failures in other Business' big IT projects to try to understand the possible risks.

- (e) The Board discussed Sparrow and any perceived or actual risk for sub-postmasters of the system change. The Business was asked to ensure independent assurance of the system's integrity and security before it goes live, with a forensic end to end assurance.

- (f) The Business was also asked to consider how it would manage the PR implications of announcing the change whilst Sparrow is still ongoing.

- (g) Lesley Sewell explained that the plan was to run the new and old systems in parallel for 6-7months and the need for the new supplier to work closely with Fujitsu. The Board asked if the new supplier and Fujitsu would have back to back contracts to

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mitigate the commercial risk for the Business. Lesley Sewell assured the Board that this was the plan but still recognised the Fujitsu exit as a significant risk.

(h) The Board asked how the Business would future proof the new system and were reassured that this would be as standard a system as possible, enabling additional 'plug in' improvements for software developments.

(i) The Board noted:

- the progress against the key initiatives within the 2020 Strategy
- the progress on the IT Strategy and alignment with Business Transformation
- the key risks, mitigations and contingency plans
- that the team would revert back to the Board as follows:
March 2015 – Strategy update and alignment to Operating Plan
May 2015 – to seek authority for the Network Tower award
May 2015 – to seek authority for Front Office Tower award

(j) David Ryan and Lesley Sewell left the meeting.

POLB 15/08

RISK APPETITE

ACTION:
Arnout Vanderveer

(a) The Board welcomed Chris Aujard, General Counsel, Jane MacLeod, General Counsel and Arnout Vanderveer, Head of Risk and Assurance, to the meeting and received a request to approve the Company's Risk Appetite Statement (RAS).

(b) Chris Aujard explained the process used to develop the RAS and the discussions at ExCo and the ARC. The RAS established the ground rules for the Business and would help to drive behaviours. Arnout Vanderveer recognised that it would take time to embed risk into the Business and ensure that decisions were aligned with the RAS.

(c) Alasdair Marnoch, Chairman of the ARC, acknowledged that the RAS was a good step forward, albeit that the process had been slow. He was encouraged by the discussions at both ExCo and the ARC and believed the RAS was a good basis upon which to build. He asked that the RAS, with risk metrics, be presented to the ARC and Board in May.

(d) Jane MacLeod recognised that the RAS would develop and change but wanted to develop a framework which would mature and change to drive business decisions.

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ACTION:
CoSec

(e) The Board asked that all future Board papers included a risk section which related back directly to the RAS.

(f) The Board agreed to adopt the RAS.

(g) Jane MacLeod, Chris Aujard and Arnout Vanderveer left the meeting.

POLB 15/09

MAILS STRATEGY

(a) Martin George, Commercial Director, and Mark Siviter, Head of Mails, joined the meeting.

ACTION:
Pete Markey

(b) Martin George provided an update on the Christmas advertisement campaign and its positive effect on brand recognition and perception. The Board asked if the analysis could be broken down to understand the effect on young people's perception of the Business.

(c) Martin George explained that the Business was still on track to hit the £342m Mails revenue forecast. He reported the three things in place to support the sales:

- i. The continuing sales support through the guiding coalition, including focus on the 689 branches that were underperforming through remedial plans
- ii. An online marketing campaign
- iii. And a branch sales incentive for the last 5 weeks of the year.

(d) Martin George updated the Board on the 'Win in Mails' strategy. He was pleased with the progress on the hand held ingenico devices; the positive conversations with retailers; and the clear path to a Mails-only solution in the spring with other products added later. However he had made limited progress with RMG, albeit they had agreed to work on trials to look at an improved customer journey, simplified products and more access points.

(e) The CFO recognised that this was probably the last chance to run a meaningful trial with RMG to make a compelling case for change.

(f) The Board asked why the Ivy trials had not produced the expected results. Martin George explained that, although the volumes of home shopping returns had been lower than anticipated, the trial had shown the market that Post Office was a viable alternative to Collect+ and My Hermes. Retailers were now considering Post Office alongside these other carriers.

(g) The Board supported the idea of a trial but were concerned that the offer would be difficult to sell to retailers who would want a network with more consistent opening hours for their customers. The Board agreed that more work needed to be done on the design of the trial, with a clear outcome for both the Business and RMG, or there was a danger of a negative result which might reinforce the RMG position.

(h) The Board were asked to consider the Terms of Reference for reviewing the strategic options for Post Office in the Mails markets. The CFO explained that this piece of work was his proposal based on similar scenario planning in previous companies. It would enable the

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Business to understand RMG's strategy and possible areas of conflict and alignment. The CEO asked that the work deliver two specific outcomes: an understanding of the RMG operation and how Post Office could add value; and some alternatives to working with RMG.

ACTION:
Mark Siviter

- (i) The Board supported the proposal and asked the Business to ensure that the work produced tangible proposals which could be discussed at the June Away Day. It was pointed out that this work should be done without the knowledge of RMG.
- (j) The Board agreed not to roll out any further Ivy trial outlets prior to the launch of the full access point proposition in May 2015. Richard Callard supported the decision but recognised that the Minister would be disappointed that the Business had not reached 12000 outlets by March 2015.
- (k) Martin George and Mark Siviter left the meeting.

POLB 15/10

NETWORK TRANSFORMATION, MODEL PERFORMANCE AND CROWN TRANSFORMATION Q3 2014

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, to the meeting and received an update on Network Transformation, performance of the new models and progress on Crown Transformation.
- (b) Kevin Gilliland was pleased to report that the Business had already hit its target of 1650 NT branches opened in the year and was expecting to have 4000 NT branches by March. He reported relative success with the guided leaver programme and wanted every office to know what was happening to their branch before the IT front office changes.
- (c) Kevin Gilliland reminded the Board that the sub postmasters' contract requires the Business to give 3 months' notice to sub postmasters but that the proposed cliff would give 6 months. It was his intention to have started conversations with all sub postmasters before May. The September cliff had always been indicative and because NT was ahead of plan the Business needed to bring this forward to keep up the conversion rate.
- (d) The Board agreed that the term cliff was unhelpful and that the Business should try to smooth the changes as much as possible.
- (e) The Board asked how the NFSP and George Thomson are likely to react to the change. Kevin Gilliland hoped that George Thomson would understand the need to bring the date forward but he was comfortable that this was the right thing to do irrespective of the NFSP position. The Board noted that the MoU with the NFSP had still not been agreed.
- (f) The Board discussed the Crown Office P&L and getting the 373 branches to breakeven. They recognised that some Crown branches were still making a loss and that the Business would now deal with these as Business as Usual. Kevin Gilliland was asked to set new

ACTION:
Kevin Gilliland

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ACTION:
Virginia Holmes

POLB 15/11

targets for the next 3 years with a specific focus on the untapped potential in Financial Services.

- (g) The Board noted the update, and thanked Kevin Gilliland and his teams for the Network and Crown transformation results.
- (h) Kevin Gilliland left the meeting.
- (i) The Board recognised that ISA sales should be the focus for the next 3 months and Virginia Holmes agreed to discuss this with Kevin Gilliland.

SPARROW

- (a) Mark Davies, Communications & Corporate Affairs Director, joined the meeting.
- (b) The Chairman explained that the agenda item was to update the Board on the BIS Select Committee on 3rd February.
- (c) Mark Davies described the Select Committee process and explained that the Business had been asked to appear to give evidence. The CEO would represent the Business. Other attendees were JFSA, NFSP, CWU and Second Sight. He explained the work being done to prepare for the Committee and the likely media activity.
- (d) Mark Davies reported that the Business had received a letter from the Criminal Case Review Commission (CCRC) asking for information on the Criminal cases involved in Sparrow. The Business had 28 days to respond to the CCRC.
- (e) The Board discussed the possible outcomes from the Committee. The Chairman explained that the Board Sparrow Sub Committee would consider options and next steps at their next meeting.
- (f) Mark Davies left the meeting.

POLB 15/12

ACTION:
CEO/ Virginia Holmes

POST OFFICE MANAGEMENT SERVICES LIMITED DIRECTOR APPOINTMENTS

- (a) The Board received a recommendation from the Nominations Committee to appoint a Non-Executive Chairman to POMS.
- (b) The Board discussed the candidate's reticence to join until project Hawk was certain to progress. The Board were anxious to secure the appointment and asked the CEO to contact Stephen Ashton to try to persuade him to take up the POMS Chairman position. Virginia Holmes also offered a conversation if the CEO thought that it would be helpful.
- (c) The Board approved the appointment of Stephen Ashton as Non-Executive Chairman of POMS and agreed to provide written consent in the form presented, giving a duly appointed director or company secretary authority to sign the consent.

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ACTION:
Nick Kennett/
Chris Aujard

(d) The Board received a request for written consent to appoint two Non-Executive Directors to the POMS Board. The Board approved the appointment of Alisdair Cameron and Jane MacLeod as Non-Executive directors but asked for a note explaining the timeline for the FCA approval process and the options for appointing the new NED directors, including risks inherent with the different options. Subject to the receipt of a satisfactory explanatory note, the Board agreed to provide written consent to the appointments in the form presented, giving a duly appointed director or company secretary authority to sign the consent.

POLB 15/13

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

(a) The minutes of the Board meetings held on 21 October, 18 November, 26 November and 14 December 2014 were approved for signature by the Chairman.

POLB 15/14

COMMITTEE MEETING MINUTES FOR NOTING

(a) The Board noted the minutes of:

- the Sub-Committee to approve the interim report and accounts meeting held on 19 November 2014
- the Audit, Risk and Compliance Committee meeting held on 10 November 2014;
- the FS Sub-Committee meetings held on 14 October and 3 December 2014; and
- the Pensions Sub-Committee meeting held on 8 October and 3 December 2014;
- the Post Office Advisory Council meeting held on 12 November 2014; and
- the Sparrow Sub-Committee held on 12 January 2015.

POLB 15/15

STATUS REPORT

(a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

(b) The Board noted the update on Project Ultra and the draft forward agendas.

POLB 15/16

UPDATE FROM THE AUDIT, RISK AND COMPLIANCE COMMITTEE

(a) Alasdair Marnoch, Chairman of the Audit, Risk and Compliance Committee, updated the Board on the last Committee meeting.

(b) The ARC was more comfortable with the approach to risk, although they wanted to continue to monitor TCF. The Business had now set

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up a major incident team which it was in the process of testing. The Internal Audit plan would need to come to the Board in March.

POLB 15/17

UPDATE FROM THE FS SUB-COMMITTEE

- (a) The Board received an update from Virginia Holmes, Chairman of the FS Sub-Committee.
- (b) Virginia Holmes suggested that the Board may no longer need an FS Committee, and it was agreed to include sub-committee structure as part of the Board evaluation.
- (c) The Board agreed that if this sub-committee was disbanded the ARC would need to include FS compliance as part of its Terms of Reference.

POLB 15/18

UPDATE FROM THE PENSIONS SUB-COMMITTEE

- (a) The Board received an update from Virginia Holmes, Chairman of the Pensions Sub-Committee.
- (b) Virginia Holmes reported that the Pensions Sub-Committee had asked for a short paper to be presented to the Board detailing the investment review position and its implications for the Pensions Plan. This would be presented at the March Board.

ACTION: CFO

POLB 15/19

CHANGE OF REGISTERED OFFICE

- (a) The Board:
 - approved the change of registered office for the Company from 148 Old Street, London, EC1V 9HQ, to 20 Finsbury Street, London EC2Y 9AQ;
 - agreed to provide written consent for the change of registered office for POMS in the form presented, giving a duly appointed director or company secretary authority to sign the consent.;
 - noted the change of registered office for Postal Services Holding Company Limited; and
 - authorised the Company Secretary to make all necessary filings with Companies House.

POLB 15/20

ITEMS FOR NOTING

- (a) The Board noted the IA status report summary as at 31 December 2014.
- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.

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(d) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1241 to 1261 inclusive in the seal register was hereby confirmed.

POLB 15/21

ANY OTHER BUSINESS

ACTION:
Neil Hayward/CEO

(a) The Board asked for an update on the appointment of the Business Transformation Director, and asked the CEO to check once more that David Ryan would not consider the post.

(b) Neil McCausland explained the process was underway to appoint a new Post Office Chairman. The OCPA (Office for the Commission of Public Appointments) had appointed Margaret Scott to lead the process which also included Neil McCausland as the Post Office Board SID. Russell Reynolds had been selected as the head hunters and an advert would be published in mid-February. The plan was to interview in May with the new Minister interviewing in June and an appointment in July.

POLB 15/22

DATES OF NEXT MEETINGS

(a) It was noted that the next Board meeting would be held on 25 March 2015, to be preceded by a NEDs breakfast.